

INFORMATION BULLETIN #26

INCOME TAX

JANUARY, 2003

(Replace Information Bulletin #26, dated November 2000)

DISCLAIMER: Information bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is inconsistent with the law, regulations, or court decisions is not binding on either the Department or the taxpayer. Therefore, the information provided in this Bulletin should only serve as a foundation for further investigation and study of the current law and procedures related to this subject matter.

SUBJECT: General Information Concerning Filing Requirements and Specific Tax Benefits Available to the Elderly

REFERENCES: IC 6-3-1-3.5; IC 6-3-2-3.7; IC 6-3-2-4; IC 6-3-3-9; IC 6-3.5-1.1-7; IC 6-3.5-6-24; IC 6-3.5-7-9

INTRODUCTION

Elderly taxpayers have many Indiana tax advantages available to them. The purpose of this bulletin is to highlight those advantages. The first part of the bulletin discusses the filing requirements that are necessary for the elderly and whether or not they are required to file an annual income tax return.

I. FILING REQUIREMENTS

The first step in determining whether an individual needs to file an Indiana return is to determine the residency status for the year. A taxpayer is considered a full-year resident if the taxpayer maintained a legal residence in Indiana for the entire year. A taxpayer does not have to be physically present in Indiana the entire year to be considered a full-year resident. If the taxpayer is a resident and the total value of personal, elderly and blind exemptions exceeds the taxpayer's federal adjusted gross income before deductions, the taxpayer does not have to file an annual income tax return. If the taxpayer is not required to file, but has withholding for Indiana state and local taxes, the taxpayer may file a return to claim a refund for taxes withheld.

NOTE: A taxpayer might not be required to file a federal return because the standard deduction amount and the number of exemptions exceed the taxpayer's adjusted gross income. However, this does not automatically mean that the taxpayer is not required to file an Indiana resident return.

If the taxpayer was a part-year resident, and the taxpayer had Indiana source income, the taxpayer must file an IT-40PNR (Part Year Nonresident Return).

II. EXEMPTIONS

Indiana allows:

- a one thousand dollar (\$1,000) exemption for each exemption claimed on the federal return;
- one thousand five hundred dollars (\$1,500) for certain dependent children;
- one thousand dollar (\$1,000) personal exemption for the taxpayer and/or spouse if they are age 65 or over;
- one thousand dollar (\$1,000) exemption for the taxpayer and/or spouse if they are blind; and

- five hundred dollars (\$500) additional exemption for each individual age 65 or older if the federal adjusted gross income is less than forty thousand dollars (\$40,000).

III. TAXABLE VERSUS NONTAXABLE INCOME

Taxable income includes, but is not limited to, income from the following sources:

Wages	Rental Income
Salaries	Farm Income
Commissions	Business Income
Tips	Pensions (taxable portion)
Interest	Annuities (taxable portion)
Dividends	Partnership/Shareholder Income
Royalty Income	Gain from sale or exchange of property

Nontaxable income would include, but is not limited to, income from the following sources:

Social Security
Railroad Retirement Benefits
Life Insurance Proceeds

The federal government taxes a portion of social security and railroad retirement benefits. Indiana allows a tax deduction for any social security or railroad retirement benefits included in federal adjusted gross income. Indiana also allows a deduction for a portion of unemployment compensation benefits received. For more information on taxation of unemployment compensation see Income Tax Information Bulletin #60.

IV. LIABILITY FOR COUNTY TAX

If the taxpayer's place of residence or principal place of work activity on January 1 was an Indiana county that had adopted the county adjusted gross income tax, county option income tax, and/or the county economic development income tax, the taxpayer may owe a county tax. The county tax schedule is included in the tax return booklet with a list of the adopting counties and their respective rates.

V. ADJUSTMENTS TO INDIANA INCOME

If a taxpayer is required to file an Indiana tax return, the taxpayer may be eligible for certain adjustments to Indiana income.

Civil Service Annuity Deduction

A taxpayer who is at least sixty-two (62) years of age by the end of the taxable year may be allowed a deduction from adjusted gross income equal to the first two thousand dollars (\$2,000) received during the taxable year from a Federal civil service annuity included in adjusted gross income. This annuity must be reduced by the total amount of any Social Security Benefits and Railroad Retirement Benefits received during the taxable year.

EXAMPLE: A taxpayer who received six thousand dollars (\$6,000) in Federal civil service annuity benefits, and one thousand five hundred dollars (\$1,500) in Social Security benefits, will be allowed a five hundred dollar (\$500) civil service annuity adjustment.

Military Retirement Pay Adjustment

A taxpayer who is at least sixty (60) years old by the end of the taxable year, or the taxpayer's surviving spouse, may qualify for a military retirement pay deduction. This deduction is limited to the first two thousand dollars (\$2,000) of retirement or survivor's benefits received during the taxable year by the individual or the individual's surviving spouse for service in an active or reserve component of the armed forces.

Homeowner's Residential Property Tax Deduction

A taxpayer is eligible for an income tax deduction equal to the lesser of two thousand five hundred dollars (\$2,500) or the amount of property taxes that are paid during the taxable year in Indiana by the individual, on the individual's Indiana principal place of residence.

Renter's Income Tax Deduction

A taxpayer is eligible for an income tax deduction if the taxpayer rents a dwelling for his principal place of residence. The deduction is equal to the lesser of the amount of rent actually paid or two thousand five hundred dollars (\$2,500).

Disability Retirement Deduction

An individual who retired on disability, and was permanently and totally disabled, is entitled to a deduction from adjusted gross income. For further information, refer to Information Bulletin #70.

VI. CREDITS AVAILABLE TO THE ELDERLY

Unified Tax Credit for the Elderly

An individual is eligible for the Unified Tax Credit for the Elderly if the individual meets all of the following requirements:

1. Taxpayer and/or spouse must be at least sixty five (65) by the end of the taxable year.
2. The taxpayer and spouse must file a joint return if they lived together at any time during the taxable year.
3. The federal adjusted gross income must be less than ten thousand dollars (\$10,000).
4. The qualifying taxpayer and/or spouse must have been a resident of Indiana at least six months during the taxable year.

A claim for this credit must be made by June 30 following the close of the taxable year. After June 30, no credit or refund will be allowed.

This credit can be claimed on the IT-40 or the IT-40PNR. If the income is under the limits that require the filing of an income tax return, but the taxpayer and/or spouse meets the qualifications to claim the credit, the credit can be claimed by filing a Form SC-40. The credit cannot be claimed on the behalf of a decedent unless the claim is filed by the surviving spouse on a joint return. If an individual is imprisoned for more than one hundred eighty (180) days during the taxable year, the individual is not eligible for the credit.

The amount of credit that may be claimed depends on the income and filing status of the taxpayer. Use the table below to calculate the amount of the credit.

If the taxpayer is filing a single return and is age 65 or older, or if the taxpayer is filing a joint return and only the taxpayer or spouse is over 65, use the following table.

If your income is:	Allowable credit
Less than \$1,000	\$100
Between \$1,000 and \$2,999	\$ 50
Between \$3,000 and \$9,999	\$ 40

If the taxpayer and spouse are filing a joint return and both are 65 or older, use the following table.

If your income is:	Allowable credit
Less than \$1,000	\$140
Between \$1,000 and \$2,999	\$ 90
Between \$3,000 and \$9,999	\$ 80

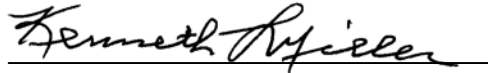
VII. CREDIT AGAINST COUNTY TAXES

If a taxpayer qualifies for the Federal Elderly Credit on Schedule R and is subject to county tax (CAGIT, COIT, or CEDIT), the taxpayer will be allowed a credit against the county tax.

The credit is the lesser of:

1. The product of:
 - A) the amount of federal credit for the elderly; multiplied by
 - B) a fraction, the numerator of which is the county tax rate, and the denominator of fifteen hundredths (0.15); or
2. The amount of county tax imposed on the county taxpayer.

If you need additional information concerning credits for the elderly, contact the Department of Revenue. The Department's web site is www.state.in.us/dor/pubs/bullets/bullet.html.

A handwritten signature in black ink, reading "Kenneth L. Miller", written over a horizontal line.

Kenneth L. Miller
Commissioner